

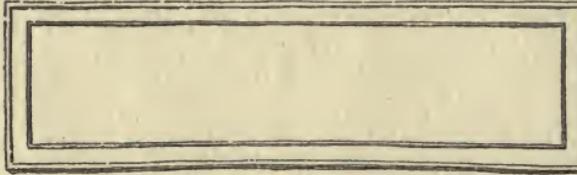
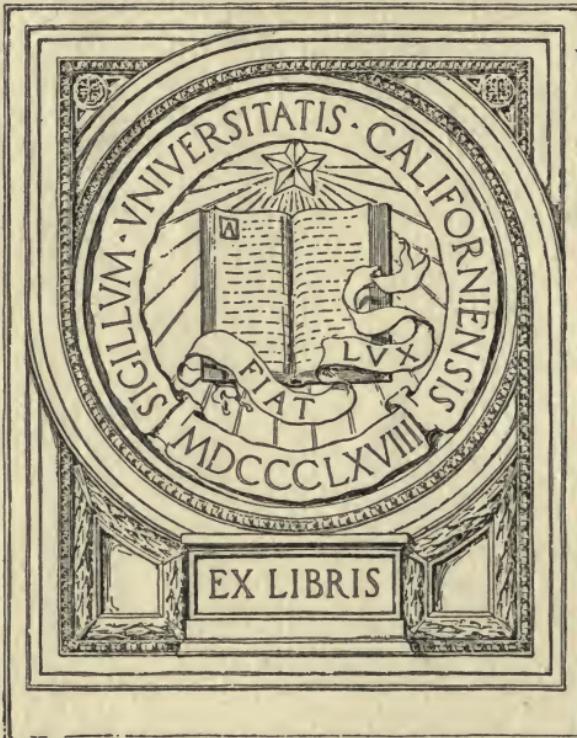
CAPITAL  
WAR AND WAGES  
*W.H. Mallock*

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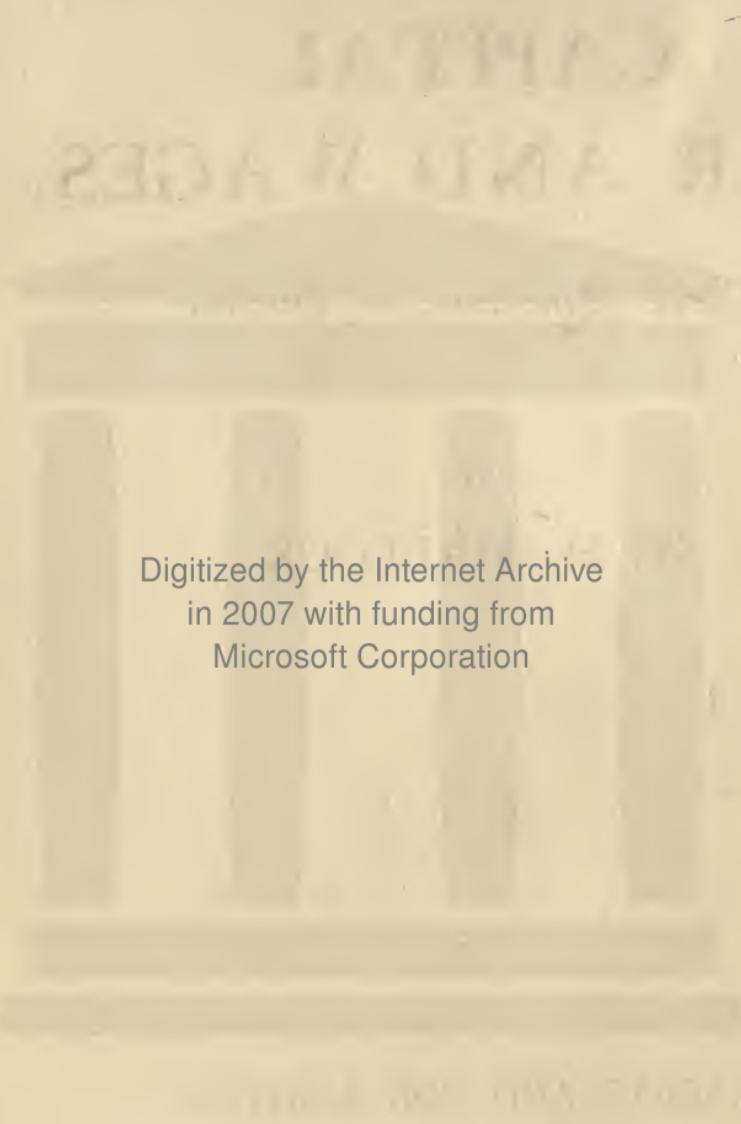






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**CAPITAL  
WAR AND WAGES**



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# CAPITAL WAR AND WAGES

*Three Questions in Outline*

BY

W. H. MALLOCK

UNION OF  
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1994 was another year with many publications and it  
was very difficult for me to choose which to include.  
I have chosen 10 from a total of over 100 and most of them  
will be covered by the "selected publications" section  
and in full form in my thesis (see 2.1). The selected  
list includes some of the more interesting ones, and  
also some of the ones that I consider good follow-up  
to previous work. I also believe that some of the  
publications that I have omitted will be covered  
in the "selected publications" section.

1. *Quantum mechanics and*

*the world*

*according to*

## NOTE

The arguments of this short volume are applications to current events of general principles which have been set forth at length in the author's recently published treatise, "The Limits of Pure Democracy". Its substance was embodied in two articles, "Capital and the Costs of War" and "Capital and General Progress", which originally appeared in the *Nineteenth Century*, permission to reproduce them having been kindly granted by the Editor of the Journal.



# CONTENTS

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## PART I

### CAPITAL AND THE COSTS OF WAR

CHAP.		Page
I.	"CONSCRIPTION OF CAPITAL" AS A MEANS OF PROVIDING THE MATERIAL NEEDS OF WAR	3
II.	CAPITAL AND INCOME	6
III.	THE INCOME OF THE UNITED KINGDOM	14
IV.	THE CAPITAL OF THE UNITED KINGDOM—ITS QUANTITY AND THE POSSIBILITIES OF "CONSCRIBING" IT	17
V.	THE NET EFFECTS OF A CONSCRIPTION OF CAPITAL ON VARIOUS SECTIONS OF THE POPULATION	29

## PART II

### CAPITAL AND GENERAL PROGRESS

I.	CAPITAL AND INCREASED PRODUCTION. THE SCHEME OF A GREAT CAPITALIST	43
II.	SEVERAL CAUSES MUST CO-OPERATE TO INCREASE PRODUCTION	49
III.	THE THREE STAGES OF CAPITAL—WAGE-CAPITAL AND MODERN MACHINERY	54
IV.	THE NOTTINGHAM LABOUR CONGRESS ON BRAIN-WORK AND CAPITAL	67
V.	BRAIN-WORK, WAGE-CAPITAL, AND MACHINE-CAPITAL	71
VI.	THE CO-OPERATION OF VARIOUS CLASSES IN ACCORDANCE WITH THEIR RESPECTIVE POWERS	76



Part I

CAPITAL AND THE COSTS  
OF WAR



UNION OF  
CALIFORNIA.

## CHAPTER I

### "CONSCRIPTION OF CAPITAL" AS A MEANS OF PROVIDING THE MATERIAL NEEDS OF WAR

#### *The Vague Cry for "Conscription"*

Amongst the various expressions of what is called "industrial unrest"—especially such unrest as relates to the conditions of war-time—one of the most frequent has been the complaint that there has been a "conscription of labour" but that there has not been, as there ought to be, a corresponding "conscription of capital". Now, if we treat this complaint broadly, there are with regard to it certain prefatory observations to be made. The contributions which a country demands of its citizens in war-time are of three kinds: industrial, military, and financial. The industrial contribution consists merely of a transference of effort, mainly manual, from one kind of work to another, the wages of such effort as a rule being not diminished, but increased. The military contribution consists in a risking of life, and is the same for the man who undergoes it whether he has much capital or none. The financial contribution has come mainly from the

rich; and, quite apart from loans, the mere tax-contribution of the rich has amounted to about £33 out of every £100 of income. The exaction of this tax-contribution out of income is conscription pure and simple. The taxes are spent by the State, and the individuals who pay them will never get them back. But those persons who demand the "conscription of capital", or, as some call it, "a levy on capital", demand it as something additional to the existing conscription of incomes which have capital as their origin. How far, for purposes of war, is such a demand practicable? This is the first question to which we will here devote ourselves.

*Loose Ideas of what the Capital of  
this Country is*

Until it is analysed with reference to detailed facts, "the conscription of capital" is a very effective cry by reason of its seeming simplicity. But the kind of simplicity imputed to it is the measure of the ignorance of those by whom the cry is adopted. For the actual facts to which this cry relates are not simple. They are in the highest degree complex; and that such is the case is being realized by many intelligent men who are, to say the least of it, far from regarding the capitalist with any undue favour. This statement may be illustrated by the following thoughtful Memorandum, which was recently sub-

mitted by a trade-union leader to an official closely connected with the industrial politics of the moment.

*"Very loose statements are constantly being made concerning wealth (or capital) and its possible appropriation, particularly for the payment of debts incurred in connection with the war. It would be particularly desirable to have some definite information as to the approximate amounts sunk in fixed capital, differentiating between machinery and land; the amounts that are invested in other countries, and the amounts that are fluid, in the sense that they can be appropriated or transferred without the dislocation of industry or commerce or the impoverishment of the land."*

Now, if we consider the nature of capital generally, the questions here raised are not those which lie at the root of it. They are derivative questions, which have other questions at the back of them. They are, however, amongst those which at the present time first suggest themselves to the mind of the average thinker; and they are those with which, as an introduction, we will, disregarding the logical order of our enquiry, begin. First of all, then, we will take the capital of the United Kingdom as measurable in terms of quantity—in financial terms such as those which we commonly employ in expressing and measuring income—and ask what, when thus expressed, the capital of the United Kingdom, as compared with its income, amounts to.

## CHAPTER II

### CAPITAL AND INCOME

*The Quantity of a Country's Capital much more difficult to estimate than the Quantity of its Income.*

The first thing which will be brought home to us when we consider capital quantitatively is that the conception of capital is much more obscure and complex than the conception of annual income. If any average thinker were asked what capital is, he would probably answer, after a moment's reflection, that capital is any possession which can be used to increase production, or can else, by sale, be turned into so much money, by the use of which money something usable for the purposes of production can be bought or else constructed. But this answer, though true within certain limits, leaves many matters unsettled, so that even the calculations of experts may lead to results which will startle us by their seemingly random differences. Thus, in the *Introductory Report on the Census of Production*—a Blue book issued only a year or two before the beginning of the war—the authors show that, whilst various independent estimates of the income

of the United Kingdom differed from one another by no more than 5 per cent, the various estimates of the capital corresponding to this income in some cases differed by as much as 100 per cent. A partial explanation of these discrepancies may, the authors suggest, be found in certain ambiguities attaching to portions of the official statistics; but they are mainly due to the fact that, with the same figures before them, statisticians have computed the capital assets of the country for different purposes, from different points of view, or on different assumptions as to social conditions generally.

*Incomes may remain constant whilst the Capital from which each is derived varies.*

Thus, if a man has an income, let us say, of £1000 a year from shares in a manufacturing company, what his income means to him is a matter plain enough; for his daily experience shows him what he can get for it. But if he wished to turn these shares into money, and then to turn this money into capital of a new kind, with a view to starting some different sort of business on his own account, the capital value of these shares might not be equally evident. They might for many years have been worth £20,000, safely yielding on this an income of 5 per cent; but to-day there might be a likelihood that the company some

years hence would be injured by others manufacturing some rival product, and that shares, which still were yielding him an income of £1000, would, a few years hence, be yielding £600 only, or possibly even less. Their capital value in that case for any possible purchaser would be a matter of mere conjecture, and might prove to be indefinitely less than what for many years it had been. It would bear no fixed relation to the income still derived from it.

*Many Things which normally have a Capital Value are for Purposes of War not Capital at all.*

Again, for purposes of a mathematical calculus, certain possessions may be expressed in terms of a capitalized value which has no relation to realizable value at all; and to many possessions a capital value may be attributed, which they actually have under some conditions, but which under others they have not.

Sir Robert Giffen, for example, in computing the capital of the United Kingdom, included furniture, all works of art, and the goodwill of individual businesses and professions. Furniture and works of art, including jewellery, were capitalized by him as the sum of the prices which each article would fetch were it sold to-day in isolation, without regard to the others. The capital value of industrial and professional good-

wills was taken by him in the same way as the sum of so many annual earnings for a certain number of years, the assumption being that each of these good-wills was sold singly likewise. About 20 per cent of his total was made up of such items.

Now under some conditions this procedure has had a practical meaning, but under others it has none.

*Works of Art are not Capital for Purposes  
of War*

Let us begin with works of art, which may be typified by great pictures. The number of great pictures in the public galleries and private houses of England is large, and the value attributed to each is large also, as may be seen by the prices which such pictures fetch at sales, and the vast sums for which, when they are lent to exhibitions, they are insured, or for which they can be readily mortgaged. In other words, to each individual picture a capital value is attributed, on the assumption that this value can there and then be realized at a money price, and the money ultimately used to create some implement of production. Now such an assumption may, within certain limits, be sufficiently correct when all the world is at peace. But in time of war, when the vital question for a nation is how to raise its productive equipment to a maximum, no addition to its equipment is possible by means like these.

What, in the way of equipment, would the British nation gain if, for example, at a war bazaar in London, a beautiful duchess induced a susceptible millionaire to give her £20,000 for a portrait of her great-great-grandmother? The portrait would be merely the means, so far as war is concerned, of inducing the millionaire to subscribe for national purposes what he might just as well have subscribed had the portrait never been in existence

*The Goodwills of Businesses are not Capital  
for Purposes of War*

A similar observation applies to the goodwills of trades and professions. Sir Robert Giffen capitalized these at a sum sufficient to finance the present war for something like three months; and this computation may have been correct in the sense that he himself attached to it—in the sense, namely, that it represented the total of the individual sums which each of these goodwills would have yielded on the supposition that all of them were sold and changed hands simultaneously. But even if conceivably any such sales could be general, they could, in war-time at all events, take place only between residents in the same country. Certain London doctors, for example, might sell their practices to other London doctors for sums which the vendors would turn into so much industrial capital; but the capital which the vendors

gained, the purchasing parties would lose. The total capital of the country would remain what it was before. It would not be possible for London doctors to increase it by selling their practices to doctors in Berlin, and using the sums obtained by this transaction for the purpose of dropping bombs on Essen or the Kiel Canal.

And here we are led on to a consideration much more widely important, which the above examples will be of much service in illustrating. Even if the capital values attributed to works of art and good-wills can be treated as actual capital for any purpose whatever, they can be so treated on one supposition only—the supposition that at any given time the number of persons who desire to sell them is limited. If, for the purpose of increasing the productive equipment of the country, all persons possessing them were equally anxious to sell them at the same time, such possessions could not be sold at all, and even the semblance of any capital value would be lost by them. Nobody would exchange money, which might be turned into an aeroplane, for the possession of a great picture, if he knew that an hour later his one desire would be to re-exchange the picture for money, in order to put the latter at the service of the State or nation. If the State should, either by conscription or borrowing, get possession of all the great pictures in England, the only use it could make of them for any national purpose would be to exhibit them gratis to

anybody who cared to look at them; but, so far as war is concerned, this use would be useless. Food would not be brought into this country, nor would battles be won in Flanders, by a loan exhibition of old masters in Kensington. So, too, with regard to the matter of goodwills, any one doctor about to retire might sell his practice to a second for a sum which the Government might, by borrowing or conscribing it, capitalize in the form of a machine for the multiplication of shells. But if all the doctors simultaneously attempted to raise new capital by selling the goodwills of their respective practices to one another, what went into A's pocket would come out of the pockets of B. There would be no new capital which the Government could either borrow or conscribe.

We thus see how largely, for practical purposes, circumstances may alter the amount of a nation's capital, if this amount, like income, is measured in terms of money; so that, even though income may be constant, the proportion of capital to income may, so far as a nation's needs are concerned, be indefinitely less in war-time than it practically is in times of peace. The differences between current computations of the capital of the United Kingdom are largely to be accounted for by a neglect of this important fact.

*What, as usable for War Purposes, is the Actual Capital of the United Kingdom to-day?*

It still remains true, however, that, despite all these considerations, a rich modern country, such as the United Kingdom, possesses a total capital which, as measured by its productive utility, is at any given time expressible, just as income is, in quantitative terms of money, so that the practical amount of the one may be compared with that of the other, all fluctuating or hypothetical elements of the former being set aside.

What, then, as thus regarded, does the capital of the United Kingdom amount to at the present time, if expressed in terms similar to those which are used to express the amount and distribution of its current annual income? The most definite and comprehensive information bearing on this question may be taken as relating to the decade just preceding the outbreak of the present war; but for the purposes of our immediate discussion it will be sufficiently indicative of facts as they are to-day.

## CHAPTER III

### THE INCOME OF THE UNITED KINGDOM

#### *The National Income as analysed in the "Census of Production"*

The information just referred to is contained in the enormous volume called *The Final Report of the First Census of Production of the United Kingdom for the year 1907*, which represents the results of an enquiry of a kind never undertaken in this country before.

The *Census* gives, firstly, in a series of minute analyses, the net selling value of all the goods produced by the manufacturing, farming, and other major industries of the country during the course of a given year, the values or money prices being those of the goods at the various places of origin.

It deals, secondly, with the value—that is to say, the money prices—added to these goods by the processes of commercial distribution, or the transference of them from the places of origin to the final buyers or consumers.

Thirdly, it deals with the value of personal services, such as those of domestics, innkeepers, waiters, scavengers, teachers, doctors, salaried officials of State

departments, and so forth—such values representing the material goods which the persons who render these services get from private individuals or public bodies in exchange for them.

Finally, the sum of all these values, which includes a certain goods-income from abroad, is presented as the total income of the nation as it was in the year 1907.

### *Capital and Income as measured by a Common Denominator*

This total income amounted to about 2100 million pounds, of which about a quarter represented personal services, whilst about three-quarters represented goods as offered to the user or consumer, finished and in their final form. Goods and personal services, though both alike contributing to the purchasable conveniences of life, are not indeed things precisely of the same order. We may, however, assume that the goods-price paid in the course of a year to a man who renders services—let us say, for example, a cab-man—corresponds with the price of the goods which his efforts would have produced if, instead of driving cabs, he had played a part in building them. Thus for both these elements of income we have substantially one common denominator.

*The Amount and Composition of the National Income to-day*

A total income, then, of 2100 million pounds was, to speak more in detail, made up mainly of the following elements in approximately the following proportions:—

1. Finished material goods at places of final sale, about sixth of their value-amount being the product of British-owned enterprises abroad, the total representing about 1600 million pounds.
2. The shelter provided by dwelling-houses, which is properly a form of service (its value-amount being measured by house-rent) represented about 100 million.
3. Personal services, in the common sense of the phrase, represented about 400 million.

So much, then, for the income of the country in respect both of its amount and its composition. Let us now consider what, apart from hypothetical values—which may be actual under certain conditions but which disappear under others—is the value-amount of the capital corresponding to this annual income, if both capital and income are measured in the same way, so as to render any comparison between the two amounts possible. Let us turn again to the *Report on the Census of Production*, and we shall in the prefatory portion find certain facts to guide us.

## CHAPTER IV

### THE CAPITAL OF THE UNITED KINGDOM— ITS QUANTITY AND THE POSSIBILITIES OF “CONSCRIBING” IT

#### *The Amount and Substance of the Capital corresponding to the National Income*

The *Census Report*, in dealing with the question of capital as compared in respect of its quantity with the income of the United Kingdom, treats capital primarily, not as a general concept, but as a number of material things which differ in shape and substance, but which are all used for the same familiar purposes of providing men with goods which are ultimately enjoyed as income; and the quantity of this capital is measured by reference to one basic fact.

This fact is as follows: Except in the case of unimproved land, of which the capital value in any old country is negligible—for land is a form of capital, though on certain occasions distinguished from it—all capital is the product of human effort, just as the finished goods are in the multiplication of which it is the function of capital to assist. Hence, with certain reservations in respect mainly of obsolescence, the

*Report* computes the present capital of the United Kingdom in terms of the cost of its construction. This means, as has briefly been shown already, that if a hundred men working, for example, as tailors add so much value in a day to the value of so much cloth by turning it into coats and trousers, the capital value of the factory at which the cloth was woven would be proportionate to the number of days which a hundred men of like strength and intelligence would have to spend in constructing the factory plant and buildings. The nature of this method of computation is illustrated very vividly by the fact that one of the means employed by the authors of the *Census Report* of arriving at definite conclusions is an enquiry into the cost of keeping existing capital in repair.

*Only a Small Part of the Income of the Nation corresponds directly to its Total Capital*

The home capital of the nation being in respect of its quantity thus computed, and compared with the quantity of the national income, the quantity of the former was, according to the *Census*,<sup>1</sup> about 6000

<sup>1</sup> According to the authors of the *Report*, the machine-capital of the United Kingdom was about double the net value of the annual factory output. This is the most definite conclusion that the authors of the *Report* work out. The capital employed in the processes of commercial distribution has, they observe, been computed by various statisticians at something like 2600 millions, or 50 per cent more than the total machine-capital; but this, and various estimates of capital of other kinds, appear, they observe, to have been very greatly exaggerated, partly owing to "duplications",

million pounds as compared with about 2000. But this does not mean that the capital of the United Kingdom yields a dividend or consumable income at the rate of anything approaching 33 per cent. Such a supposition would be ludicrous. It would mean that every income was derived by the recipient from the fact of mere passive ownership, that nobody who was not a capitalist got any income at all, that a doctor received his fees, not because he dosed his patients, but because he was a shareholder in the London and Brighton Railway. As a matter of fact, three-fourths of the income of the United Kingdom can, with very fair precision, be shown to consist of the earnings of direct effort—to consist, in other words, of wages, salaries, fees paid in respect of professional services, and the profits of petty employers, in which interest on their little capitals is an element hardly distinguishable from the earnings of manual work. If we deduct the interest which, through popular banks and otherwise, goes already to the wage-earning classes as a whole, the interest going to

partly to the "capitalisation" of incomes not due to capital—e.g. professional earnings, a large part of the personal earnings of farmers, &c. Not many years ago an attempt was made to treat the whole "ungotten minerals" of the country, especially coal, as capital. By adopting methods of this kind the computed capital of the country may be inflated to an indefinite extent. "Ungotten minerals" may be capital for future generations, but for each generation they are capital in so far only as they are accessible. Without going into the details of such complicated questions, it is enough here to say the capital of the British Islands to-day is apparently not more than some 6000 millions, or about three times the national income, if both are expressed in the quantitative terms of money.

the recipients as mere possessors of capital does not amount to as much as 300 million, which means a dividend of about 7 per cent. In some cases, as the *Census* shows, the rate is much higher than this, in others it is much less.

Of what material things, then, does the capital of the United Kingdom at the present day consist? Its main elements are:—

1. Agricultural land, with its artificial but immovable adjuncts, such as drains, fences, barns, to which we may add seed and live stock.
2. Mines—coal mines especially—together with their mechanical equipment.
3. Factory buildings and the mechanical plant of factories.
4. Railways, ships, and other means of transport.
5. Dwelling-houses.
6. A certain stock of such goods as are necessary for the support of life, this stock at any given time being greatly in excess of that which a nation by its current efforts produces from day to day.

This last-named kind of capital requires to be discussed separately. Let us for the moment confine ourselves to the five others, and ask in what sense material things like these, if conscribed or borrowed from their present possessors by the Government, could, with a view to defraying the costs of war, be used as a supplement or alternative to taxes on current income.

*Capital in the Form of Houses. Effects  
of conscribing this*

Let us begin with dwelling-houses. Except in the case of houses which the Government has annexed as offices, what use could it make of houses if it borrowed or conscribed the rest of them, other than the use which is made of them by the existing occupants? If it took them over as a loan, it would have to pay on the loan an interest equivalent to the rent now paid to the owners, and the rent, under the name of a tax, would be paid to the Government by the occupants, who would, taken collectively, be another name for the nation. There would be a change in the form of the arrangement, but no change in its essence. If the Government, instead of borrowing the houses, conscribed them, it might doubtless effect one change which would be not only nominal but real. By refusing to pay the owners any rent or interest at all, and thus avoiding the necessity of getting it out of the occupants, it might enable the latter to live without paying rent to anybody, and they would so far be richer by the amount of the rent remitted. Each of them would to that extent have a certain extra income. But whether the Government by this conscription of house-capital acquired any extra assets available for defraying the costs of war or no, would depend on what the occupiers did with this extra income when they got it. If they spent it in

causing the production of more luxuries for their own enjoyment—if they spent it, for example, on beer, whereas the expropriated landlords had previously spent the same sum on skittles—there would be a change for individuals in the nature and distribution of luxuries; but the Government by its act of conscription would have raked in nothing which it would not have got before if the landlords, free of taxation, had been left to spend all their rental on whatever luxuries they pleased. The only way in which, by conscribing the capital represented by houses, the State could gain anything for the purposes here in question would be that of compelling the occupiers, as soon as the rents were remitted, not to spend them on their own gratifications, but return them unconditionally to the State—a process which, so long as it lasted, would be only a clumsy variant of the process of raising the same sum by taxation.

*Capital in the Form of Ships. Effects of  
conscripting this*

Let us take the case of ships. Let all the ships of this country be typified by a single vessel. The cost of constructing it—i.e. its capital value—might be fifteen times as great as the value of the services which it rendered by its voyages in a single year; but by conscripting its capital value the State could not enable it to perform the voyages of fifteen years in one. For

purposes of war, all that the State could do would be to see that its cargoes consisted solely of necessaries, and that the importation of superfluous goods was prohibited. In this way goods-values might be secured for war use which would ultimately be equivalent to the ship's capital value; but this capital value could be realized in annual instalments only—that is to say, by a virtual tax on income, spread over a period of something like fifteen years.

### *Similar Effects of conscribing Capital of Other Kinds*

And to all forms of productive capital, such as agricultural land plus improvements, and to the whole mechanical equipment of mines, railways, factories, and industrial production generally, the same rule, with two exceptions, applies. By conscribing capital—by making itself the owner of capital—the State could, for purposes such as those of war, gain nothing which it does not gain by special taxation of income. By making itself the owner of capital, it could not do as a whole what may be done, and very often is done, by an individual here and there. It could not, in other words, treat capital as income, and spend it as an addition to income in order to meet the exceptional demands of war-time. Whether the capital which it conscribed were agricultural land or factory plant, all that it couldulti-

mately use would be, not the capital, but the products or the income in which the employment of capital resulted. It could not increase the food-supply by taking possession of fields and offering earth to the population as a supplement to insufficient potatoes. It could not increase our shipping by taking possession of all the shipyards of England, and launching docks or cranes as substitutes for torpedoed merchantmen.

As, however, has been just now said, to this rule there are two exceptions, the first of which is as follows:—

*Turning Capital into Income by  
neglecting Repairs*

There actually is one way in which, by conscribing productive capital, the State might for the moment gain more than the normal income derived from it, in the sense that it might secure, for the immediate purposes of war, the efforts of a larger number of men. The way in question is that of applying to the immediate purposes of war the efforts of those persons who are normally employed in keeping the capital of the nation in repair. Such a procedure would be precisely analogous to that which is actually often adopted by capitalists whose capital consists of houses. Thus, a man, let us say, receives for a certain row of houses a gross rental of £700 a year.

The average annual cost of keeping these houses in repair would be £100, and, if he kept them in repair, his net income would be £600. But in order to augment this net income, and keep (we will suppose) a chauffeur, he lets the repairs go, and for the moment increases his income to the extent of £100. The results of this procedure may not be at first apparent; but, if it is continued, the houses become gradually uninhabitable, their rental value falls, or one by one the tenants give up their tenancies, and finally the owner has no capital and no income at all. The same would be the case with ships and the larger part of productive capital generally. The deterioration would go on with increasing velocity; very soon there would be little of the original capital left; and the cost of replacing the productive capital which was lost would, owing to this very loss, be indefinitely greater than the first cost of constructing it.

*Turning Capital into Income by consuming  
Food-reserves without replacing them*

We now come to exception number two.

Unlike all other forms of capital, there are, as has been said already, certain material things the capital value of which can be used as income of equal amount immediately; and these things consist of consumable goods necessary for the support of life, such as food and sufficient clothing, which, saved from the products

of one or two preceding years, remain ready for use during the next. And whether these things are capital or no, in the sense of being aids to production, or to what extent they are aids to it, depends altogether on the manner in which they are distributed or applied.

Let us suppose that these reserves of immediately-consumable necessities took the form of so many million packets of biscuits, preserved meat and milk, tea, sugar, and beer—each packet representing one man's ample livelihood for a year. Now, if these packets were distributed amongst the nation unconditionally, the recipients being under no obligation to do any work in return for them, and consequently remaining (as they easily might do) idle, this mass of consumable necessities would not be capital at all. It would not aid, on the contrary it would suspend, production. The only way in which it could be rendered productive, or, in other words, invested with the qualities of capital, would be to place this mass of livelihoods in the custody of some authoritative body, whether consisting of so many private capitalists or the State, who, since the recipients for the time need no longer produce food (the food being there already) would deal it out to them on the two following conditions: firstly, that they produced some other commodities, and, secondly, that these other commodities should be of certain specified kinds which private capitalists or else the State would prescribe to them, such as guns, for example, instead of motor-cars, or

submarines instead of excursion steamers. The proper name for such hoards of immediately-consumable necessities when they are dispensed on these conditions is wage-capital; and the productive function of wage-capital is this: that it enables the authorities, whether private or public, who dispense it, to secure not only that in return for it the recipients shall produce something of a kind different from these wage-commodities themselves, but also that this something shall be of the kind which is at the time most needed.

Of this species of saved-up capital, which, unlike every other, is consumed as income by the wage-earners in the very act of using it, the State, in times of extreme stress, might, by the device of conscribing it, employ the whole of its capital value immediately, thus expending as income in one year necessities which it had taken many years to accumulate and would require many years to replace. The State might thus in war-time secure a sudden increase in goods not necessary for the life of its citizens, but necessary for national victory; but the State might virtually achieve the same results by borrowing such hoarded necessities under promise of future repayment, or by extracting them indirectly by means of some special tax. It must further be observed that, however this may be, such conscription or borrowing or taxation could from the nature of the case last for a short time only, for the wage-capital thus used as income would very soon be exhausted; and relatively

to capital of other kinds, which is valuable not for its own sake but only in proportion to the amount of its final products, the amount of wage-capital, or of hoarded foodstuffs, which is ready for consumption at any one time is small.

*Capital Generally, exclusive of Wage-capital*

For the moment, then, we need not speak of wage-capital further, though it has another aspect with which we will deal presently. For the moment we are concerned mainly with capital of other kinds, with permanent things not directly consumable, such as land, houses, ships, and the vast plant of our factories, of which things the bulk of our conscribable capital is composed; and what has been thus far shown is this: that the State, for purposes of war, would, by conscribing capital, gain nothing more, and indeed would gain nothing else, than what it would gain from an appropriation by means of taxes of that portion of the goods-income of the country which is due to the aid of such capital, as distinct from the manual efforts of the labourers and the directive brain-work of the employers.

And yet, despite this fact, the conscription of capital would, if it could be carried out, have on the affairs of the nation some special effect of some kind. What would the kind and extent of that effect be?

## CHAPTER V

### THE NET EFFECTS OF A CONSCRIPTION OF CAPITAL ON VARIOUS SECTIONS OF THE POPULATION.

*Impossibility of conscribing Capital obtained as a Loan from Neutral or Allied Countries*

With a view to answering the question thus proposed, we shall get an insight into at least one part of the answer, by making and considering the following very simple suppositions.

Let us suppose that, instead of conscribing the capital of the United Kingdom, the State borrowed capital of an equal amount from America, and that such a loan took the material form of all the merchant vessels of that country, these being placed for the time at the service of the British Government. If the British Government secured the use of these ships as a loan, it would have to guarantee to America some interest on the capital represented by them, or, in other words, some compensation for that use of their own shipping which the American people would forgo; and the Americans would at least expect that some day, after the war was over, their own ships should

be restored to them. But if, having got these ships, the British Government should announce its intention of keeping them, saying that it had altered its mind, and preferred not to borrow but to conscribe them, such a "confidence trick" would be an act of war unexampled in history. Our country, having conquered one enemy, would at once have provoked war with another.

Such a procedure is practically unthinkable. But let us suppose the British Government dealt in the same way with the capital of its own citizens. How would matters stand then? For it is the conscription of home capital that here mainly concerns us.

*Home Capital borrowed in War-time could be used afterwards only for the Purpose of producing a Normal Goods-income*

The State in conscribing home capital would, as has been shown already, not be conscribing in any practical sense the material substance of such things as machinery, but simply be conscribing the goods-income which such capital aids in producing, and also prescribing in war-time what the nature of the goods shall be—aeroplanes, for example, instead of chocolate-creams. When normal times returned, and things such as shells and aeroplanes were no longer necessary, all that the State could do would be to see that the goods-income resumed its normal forms, and to hand

it back to the nation for personal enjoyment as before. The sole new power, which, by conscripting capital, it would acquire, would be that of determining the manner in which the "conscripted" goods-income should be distributed.

*Interest on Borrowed Home Capital would be a Debt which the Nation owed to itself*

The case may be put thus: If all the available capital were *lent* to the State, the sum total would constitute what is called a national debt; and, if we regard the nation as one individual, this debt would be a debt which one man owed to himself, for the interest paid to him by the State would necessarily come from taxes which he had himself paid, and he would only be getting back to-day what he had given to the State yesterday, or transferring to the pockets of his waistcoat what he had taken out of the pockets of his breeches. As a matter of fact, however, home capital lent to the State is not contributed by one man. It is contributed only by some, and these contribute it in very unequal proportions. Some lend their thousands of pounds, others their hundreds or their fifties, others nothing at all; and thus the nation as a whole is not paying interest to itself as an undivided whole, but certain portions of the nation are paying interest to others. If the State treated the capital, not as a loan, but as so much public property,

it would still have to pay this interest, or goods-income, to the nation, but would pay it without any regard to the amounts subscribed by, or rather taken from, individuals. The individuals who had wasted their substance, or who had produced so little that they had nothing which the State could appropriate, would be treated as on a par with those whose care and talents had created and saved the whole. The corporate resources of the nation, so far as income from capital is concerned, would be just what they would be otherwise. The only difference would be that the burden of the debt (as it would be from the State's point of view), or the income from capital (as it would be from the point of view of the citizens), would be largely shifted from one class to another.

These observations relate to income from capital only. They have, other things being equal, no relation to income from direct personal effort. What, then, in terms of income, would be the maximum effect on the individual citizens which a State conscription of all home capital could produce? It would, were it feasible, take something from the more capable few for the benefit of the less capable many, adding this something as a bonus to the direct earnings of the latter. So much is obvious. It is the precise result which those who talk about the conscription of capital desire. The question is, to what extent would the less capable many, in terms of income, be benefited?

*The Majority would directly gain, but the Direct Gain would be reduced by a New and Heavy Liability*

The very essence of income from capital, or the goods-income which capital produces, as distinguished from income produced by direct personal effort, is that its source, such as the plant of a factory, is transferable from one man to another without this income itself being thereby lessened. Now, according to the data provided by the *Census of Production*, the income from home capital of this country in the year 1907 was £300,000,000, as against a total income of £2,100,000,000, the larger part of this latter sum being the product of the direct efforts of the workers, manual or mental, by whom the capital was used. That is to say, income from transferable means of production was about one-seventh of the entire income of the nation. The utmost, then, that the State, from the point of view of the many, could do by treating all capital as the property of the nation generally would be to give every citizen an absolutely equal share of the income which its present possessors derive from it in the form of dividends, which share would amount to about £7 per head. Now, shortly before the war, the average income per inhabitant of the United Kingdom was about £47, of which £40 per head was the product of direct effort; or, if we put the

matter in terms of the actual workers, the direct earnings of each amounted to about £82; whilst if all income from capital were divided among the workers equally, this would have meant for each a bonus of about £15. This, on the face of it, would be a substantial gain for the majority. But, closely connected with the question of income from capital, there are other facts to be considered, by which the situation is greatly altered.

*If all were credited with an Equal Share of Capital, all would have to save equally*

According to the *Census of Production*, there is an annual saving, or conversion of income-goods into new capital, which goods, in respect of their value—this being about 300 million—are about equal to the total goods-income which capital itself produces. This saving of income, or this diversion of productive power from the production of consumable goods into agencies for producing more goods, is, as matters stand, equivalent to a voluntary tax, not merely or mainly on income produced by capital—for, were that the case, all income from capital would be absorbed by it—but on the total income from capital and direct effort together. At present some three-fourths of these savings—the total being about £15 per head of the occupied population—come from the richer classes, the savings of these per head being about

£170, and those of the poorer majority being not so much as £4. But in proportion as incomes were equalized, these savings, or this voluntary tax, would have to be equalized also. The individual savings of the present rich would decline, till they fell from £170 to the general average of £15; and the individual savings of the poorer classes would increase, till they rose to £15 from a sum which is at present £4.

This fact may be put in various ways, but, however we work it out, the broad conclusion is the same. A certain capitalist income—about 300 million pounds—is regarded as redistributable, on the assumption that in the capital which is the source of it each unit of the nation holds virtually an equal share. The sum thus distributed, if there were no deductions to be made from it, would mean £7, 10s. per inhabitant, or £15 per worker in addition to his total income; but if, out of his total income, which is mainly direct earnings, each average worker has to tax himself by paying into the national savings fund about £11 more than he does at the present time, the net addition to his entire spendable income will be something nearer to £4 than £15, or only about a third or fourth of what, apart from savings, it would be.

*Popular Denunciations of "Saving"*

To this argument, however, by those who advocate "conscription", the following answer may be, and constantly is, made. Such persons may, and a great many of them do, declare that saving is unnecessary—that the inculcation of the practice is somehow or other what they call "a capitalist dodge", or a device by which the employers of to-day rake the income of the nation into their own reserves. Thus the constant counsel which socialists administer to the wage-earning classes is to scout the idea of "thrift", to spend as income every penny they get, and in a mood of "divine discontent" then clamour for more.

*What the Annual Savings of this Country are,  
such as Capital Equipment for New Workers,  
&c., and why they are necessary*

To such denunciations of "thrift" there are two main answers, of which the first is as follows:—

It is pointed out in the *Census of Production* that much of the material capital of a country like the United Kingdom, consisting as it does of scientific machinery, requires not only to be maintained "in good physical order", but also requires to be often reconstructed, if any advance in production per head is to be achieved; new mechanisms being substituted for others which are not worn out, but obsolete. A

considerable amount of savings is necessary for such reconstruction.

But there is a further answer to denunciations of saving which is still more obvious and important. Every year in the United Kingdom some 380,000 persons, or 180,000 workers, are added to the population, and new capital or material aids to production must be placed at the disposition of these; for they will otherwise be no more able to work than a soldier will be able to shoot if he is not provided with a rifle. Now it is shown by elaborate figures given in the *Census of Production* that the mechanical equipment necessary for each new workman represents, on an approximate average, capital to the value of some £250, and if to this mechanical equipment be added new house accommodation for himself, his wife, and children, the value or cost of his entire material equipment will be, we may say roughly, about £450. Hence the total capital which must be saved out of income for the equipment of these new workers collectively will be something between 80 million and 100 million pounds.

Further, as the *Census* points out, we must include amongst goods saved, or goods which might have been income-goods, but take the form of capital, new equipments which are exported for the purpose of maintaining or extending British-owned enterprises abroad; and yet again we must include home reserves of such income-goods as become capital in so far as

they are held for the purpose of being dispensed or administered in the form of future wages.

Here, according to the *Census*, are the principal elements of the savings of this country, which amount in all to some 300 million pounds a year.

*Small Gains of the Average Man, and the Penalization of all Exceptional Enterprise*

In a country, then, such as the United Kingdom, the population of which increases, and which aims at increasing the average wealth per inhabitant, savings are not optional, but obligatory. If individuals did not make them voluntarily for their own prospective advantage, the State in the interest of the nation would have to take them by force. Taking them by force would be the virtual equivalent of conscribing them. The more efficient citizens, who at present produce the larger part of them, would be robbed of nearly the whole of the future advantages which their present savings now promise to themselves; and the less efficient workers, who alone would gain anything, would, in respect of goods-income available for direct consumption, be on an average richer than they are at present by an addition to their present total incomes of not more than a twentieth.

The practical question which remains for consideration is this: whether the more efficient citizens, out of whose products in any case most of the savings must

come, would continue to produce them if nearly all of their property in these were forcibly taken away from them.

In order to answer this question we must consider capital generally in a more extensive way.



Part II

CAPITAL AND GENERAL  
PROGRESS



## CHAPTER I

### CAPITAL AND INCREASED PRODUCTION. THE SCHEME OF A GREAT CAPITALIST

*Growing Recognition that any General Enrichment must be based on Increased Production*

We have thus far considered capital mainly in relation to the exceptional conditions and the exceptional costs of war. We will now consider it in relation to the times and conditions of peace, which we all desire to re-establish as representing the normal life of the world.

The general conclusion resulting from the broad facts thus far dealt with may be briefly restated in other terms as follows. A conscription of capital would not, except to a very small degree, provide anything for purposes of war which cannot be secured in a far more convenient way by direct taxation of current income, or by loans. It would, indeed, shift to a certain degree, from a smaller class to a larger, the income from which, for purposes of war, the State must, in any case, appropriate a certain amount somehow; the total income of the richer man being dimin-

ished, and the total income of the poorer man being increased. But even if we leave the special costs of war altogether out of the question, the average gain of each worker of the poorer classes would, as compared with what is popularly imagined, be insignificant. The equally distributed income derived from conscribed capital would for them, and for everybody else, not come to more per worker than 1s. 6d. a week.

Now, though most of the persons who demand that capital should be "conscripted" have not taken the trouble to reduce the meaning of such conscription to definite details like these, there has been for the last ten years a tendency, even amongst extreme radicals, to realize a more general fact of which these details are illustrations.

### *Examples of this Recognition*

The fact in question is that, if the incomes of the population generally are to be raised in the future to any substantial extent, this result cannot be achieved by any mere redistribution of income already existing, but must be looked for in a large increase of the total amount produced. Thus Sir L. Chiozza Money, who began his career as a statistician with fervid assertions that all could be raised to affluence by taxing, for the benefit of all, the accumulated revenues of plutocrats, has subsequently insisted, in an essay

contributed to a volume called *The Great State*, that an equal division of the entire income of this country would hardly suffice to raise the population to what in his opinion a reasonable life required. The same contention has been urged by Professor Marshall; and lately many great employers, arguing in the same direction, have been seeking as practical men to indicate by what means a great increase may be effected in the volume of wealth produced, the hours of labour at the same time being reduced rather than prolonged. Of such means the most striking is that which was described by Lord Leverhulme, one of the most successful of the active capitalists of the country, in a long statement made by him, which was published by the *Observer* on the 20th of January, 1918. This statement, if taken as it there stands, requires various qualifications, on the need for which Lord Leverhulme has elsewhere himself insisted. But let us begin with taking it on its own sole merits, seeing how far it will carry us, and what deductions and additions must be made from and to it if our conception of the principal means towards increased production is to be more or less complete.

*The Optimism of a Great Employer*

As formulated by Lord Leverhulme himself on the occasion just mentioned, this particular part of his gospel may be briefly summed up thus:—

With regard to the immediate future of Labour in this country as soon as war-work ceases, the truth is, he maintains, that, unless things are grossly mismanaged, there is no ground for pessimism. The natural demand for labour will, he says, be greater, not less, than the supply, one reason being the necessity for converting as soon as possible the war-plant of factories into a plant usable for satisfying the demands of peace. But this, he says, is not all. When once the restitution of normal industry is accomplished, this restitution, if things are managed intelligently, will merely be the starting-point for further and hitherto unexampled progress. Not only will the employers ultimately be more prosperous than before, but the wage-earners will benefit to a degree more signal still. The total output will be so largely increased that there will be for each of the latter a large addition to his wages; and their daily hours of labour, so Lord Leverhulme estimates, may be reduced in the near future to not more than six. And how is such a miracle to be accomplished?

*The Great Results promised from a More Continuous Use of Existing Machine Capital*

His argument, as set forth on the occasion to which we are here referring, runs thus:—

If we start with assuming a specified amount of labour, the total product of such labour is greater to-day than it once was, because labour in the modern world is aided by elaborate machinery which in earlier ages was unknown. Thus, he says, it is estimated that in a modern factory, out of a total product consisting of 100 units, "machinery is accountable for 90 units, and human labour engaged in the actual process of production is accountable for barely 10". But, says Lord Leverhulme, when it is estimated that machinery is year by year accountable for nine times as many units as the labour employed in using it, this estimate is based on what is at present the fact—that the labourers work only for eight hours a day, and that the machinery is operating for only eight hours likewise. For two-thirds of every day it is idle and produces nothing. Hence, says Lord Leverhulme, the industrial progress of the future must be looked for in rendering the operations of machinery continuous, so that for every 90 units which it daily produces now it shall, other things being equal, produce 270 units, with which end in view the labourers would have to work in shifts. Thus if each shift worked,

as is now the case, for eight hours, then, other things being equal, a factory at present giving assistance to 100 men would give assistance to 300, each of these three hundreds, A, B, and C, taking up the work of its predecessor in the course of twenty-four hours. This arrangement would mean an economy similar to that practised by Box and Cox, who at different periods of the day were occupants of the same bedroom. One initial expenditure would provide machinery for 300 labourers just as well as for 100; and if machinery used for only eight hours a day multiplies the product of each labourer using it by 10, this same machinery, if used for twenty-four hours, would repeat this service gratuitously for 200 labourers more, thus multiplying the product of labour not by 10 but by 30. That is to say, the continuous use of machinery would, relatively to the number of workers, treble the total output; and, such being the case on the assumption that an eight-hour day continued, it would be possible to diminish the working day in the proportion of 30 to 24, and yet make wages possible which the total income of the country could not provide to-day.

## CHAPTER II

### SEVERAL CAUSES MUST CO-OPERATE TO INCREASE PRODUCTION

*Reasons for regarding this one Reform  
as inadequate*

Such is the substance of Lord Leverhulme's main argument. It is one the logic of which will be at once apparent to everybody, and its general force is enhanced by the fact that it is urged by a great capitalist who speaks from direct and highly successful experience. At the same time it must be noted that, if we confine our attention to his immediate argument, the figures which he gives appear to be far too high, his over-estimate being due to his omission of the two following facts.

The first of these facts may be illustrated by the case of ships. The engines of an Atlantic liner are, as matters now stand, worked during the whole of every twenty-four hours of the voyage, not for eight hours only. There is here no room for improvement of the kind which Lord Leverhulme suggests. Secondly, in certain industries the part played by machinery is much less than it is in others, and the gain

to be looked for by employing it more continuously is much less likewise. Thus if we may roughly measure the amount of machinery employed in different industries by its horse-power per employed person, and if, beginning with the industry—namely soap-production—with which Lord Leverhulme is himself connected, we express the amount of horse-power per man by the index number 100, the amount will be 100 for the engineering trades likewise; but for the textile trades it will be not more than 90, for the building trades it will be 30, and for the dress-making trades it will be only 5. In the agricultural industries it is less even than in dress-making, and for various reasons its use could never be continuous. Further, it remains to be noted that in many industries or occupations—namely those which consist of the rendering of personal services, such as the services of waiters, shop-attendants, and domestics, no continuous running of any conceivable machinery would have any effect, or appreciable effect, whatever. The horse-power of machinery used, as shown by the *Census of Production*, is only a rough indication of the efficiency of the machinery itself; but the broad conclusion to which these considerations lead us is that, however sound in itself, and however fraught with promise the policy which Lord Leverhulme set forth on the occasion here referred to may be, he exaggerated the effects which could result from that policy if taken alone.

*The More Continuous Use of Capital must be accompanied by two other Reforms—Improvements of Machine-capital, and a New Self-development on the part of the Labourers*

His very exaggerations, however, are in themselves instructive; for they have their origin in the fact that, in urging on that occasion one series of arguments, he omitted to insist on others which those very arguments imply, and on which he has himself, in various speeches and reports of speeches, insisted; and if these be taken together with those now under consideration, they may go far, as we shall see presently, towards justifying hopes for which each, if taken singly, affords too narrow a foundation.

Translated into terms of general economic theory, the particular contention of Lord Leverhulme with which we are here concerned is this:—

1. That capital, for every hour for which it is in use, multiplies the product of labour, or unassisted hand-work, to some extent which may in any case be called enormous.
2. That capital is machinery, and is virtually nothing else.
3. That, a certain amount of machinery being given, the principal means by which production may be increased in the future is a using of this machinery with the utmost continuity possible.

But here we come to a point at which this argument will be seen to mean more than it states. Even if we assume that capital in the form of machinery is the sole productive agent other than current labour, machinery is not an undifferentiated quantity which is measurable only by the cost of the labour employed in its construction. Machinery differs in respect not only of its amount as measured in this way, but of its quality or efficiency also. An absolutely inefficient mechanism, such as the celebrated Bessemer steamer, may require more labour to make than one whose efficiency transcends all expectation. A modern cotton-mill constructed, under scientific direction, by five hundred labourers in a year would give far greater aid to production than the total number of hand-looms which the same number of labourers, without any such direction, could construct in the same time. Thus if, a certain amount of machine-capital being given, production may be greatly increased by using it more continuously than is done at present, another road to increased production is that of improving its quality; and, so far as machinery goes, it is by improving its quality that the entire industrial progress of the last hundred years has been achieved.

*An Explanation which itself requires explaining*

But to say that this progress is due to improvements in machine-capital is not to explain a problem. It is merely to state the problem which requires explaining. The problem which requires explaining is how the machine-capital of to-day, relatively to the hand-work involved in its construction, has come to be more efficacious than the machine-capital of earlier times; and the answer lies in the fact that machine-capital is not the only form of capital by which in modern times the operations of labour are assisted. Further, as we shall see also, there are certain forces resident in the labourers themselves which, quite apart from the direct operations of capital, may, whereas they are now latent, be so elicited and developed as to co-operate largely in increasing the total product. We will first, however, consider more completely the nature of capital itself.

## CHAPTER III

### THE THREE STAGES OF CAPITAL—WAGE-CAPITAL AND MODERN MACHINERY

#### *Different Aspects of Capital*

Capital, like most concrete things, may with equal accuracy be defined in totally different ways, according to the point of view from which it may happen to be regarded. In this it resembles a man. Let us suppose that a man, very large, very voracious, and at the same time very agreeable, adds himself to the company of a dozen people at tea. Viewed from one point he might be described as the life of the gathering. Viewed from another point, he might be described as an unwelcome intruder, who ate up so many buns that the rest of the company were rendered peevish by inanition. Again, the same man might have three portraits painted of him, which, according as they represented his profile, his full face, or his back, were all equally accurate, though not a single line or contour in any two of them was the same. A large number of people, if asked what capital is, would describe it as any property yielding the possessor a revenue on which he could live without doing any productive

work in return for it. Everybody, also, would describe it at the same time as "wealth set aside for the future production of more wealth".

*Differences in the Substance and Functions  
of Capital at Different Stages of its  
Development*

Now with this latter definition, although it is not exhaustive, there is, so far as it goes, no occasion to quarrel. Its fault is that it is applicable to concrete things of very various kinds, and that, though indicating one characteristic in respect of which they are all alike, it gives no indication of those in respect of which they profoundly differ. Not only does capital, as we know it at the present day, comprise various material substances which fulfil simultaneously very different functions, but it fulfils in its later forms one function in particular of which in its earlier forms it shows no sign whatever. In this respect it resembles the human embryo, which, beginning as an impregnated cell, exhibits nothing at first which science can identify as human, and which, even when it has reached an advanced stage of development, might, so far as observation can inform us, be the embryo of a rabbit just as well as the embryo of a man.

If we look at capital in a comprehensive sense historically, its existence, its growth, and its functions are divisible into three stages, which we may roughly

describe as the Primitive, the Intermediate, and the Modern. In the first it assumes one form and fulfils one function only. In the second, this one form and this one function remaining, a new form and a new function develop themselves, which co-operate with the first, the first two being thereby changed, not greatly but appreciably. Finally, these two forms and functions of capital give birth to a third, which invests capital generally with a practically new character, and from which indeed capital derives the whole of its modern efficiency.

### *Primitive Capital, or Rude Tools*

Primitive capital consists exclusively of small and very simple tools, such as chipped flints, darts, and traps, the main use of all of them being to assist the human hand in the capture of animals, whose flesh is eaten, and whose skins are used for clothing.

### *Intermediate Capital, or a Sustentation Fund plus Implements*

Intermediate capital, which comes into being with the first beginnings of agriculture and the keeping of live stock,<sup>1</sup> differs from primitive capital in the fact

<sup>1</sup> Henry George insisted that the fundamental form of capital is live stock, which increases through natural and non-human causes, together with vegetable products such as wine, which mature and increase in value by mere process of time, whereas things like ships and machinery do neither. We

that, besides comprising tools, it comprises also stores of food, which, saved from one harvest or lambing season, enable men to keep themselves alive till the next. Such stores we may call sustentation-capital, and when once they come into existence other results follow.

When harvests are gathered in which feed men for a longer period than that which is required for producing them, men have time to multiply their tools and improve them—to turn them into what, by way of distinction, we may call "implements". Rudimentary spades appear, flints being used for shaping them, and ploughs in the form of selected and sharpened sticks. The primitive loom appears, which is made of sticks and strings; also the potter's wheel, and the quern for grinding corn. Such developments are due to the average intelligence of mankind; but they are so limited in their scope that in countries where capital is still in the intermediate stage implement-capital is still what it was two thousand years ago. In the Shetland Islands corn is, or till recently still was, ground in querns—survivals of the Stone Age. The native looms of India are still what they were before the days of Gautama.

may describe his argument as a bisection of capital into organic capital and inorganic; and for certain purposes this bisection is useful. It need not, however, be pressed with any minuteness here. Animals, wines, seed kept for sowing, may be here all grouped together as elements of sustentation-capital or wage-capital, seed saved for sowing being the most convenient type of it.

*Modern Capital, or Wage-capital, plus Capital  
in the form of Elaborate Machinery*

Modern capital embodies both the antecedent kinds, but differs from them primarily in the following fundamental particular, of which all other differences are the consequence. In the case of modern capital, the portion of it which consists of a sustentation fund, or the hoarded means of life, comes gradually to perform new functions, of which capital in its earlier stages shows no appreciable signs. In the earlier stages of society every labourer is his own capitalist. This is true in a double sense. In the first place the temporary releases from mere food-production which the earlier accumulations of sustentation-capital give are used by the labourer according to his own devices; for each man's sustentation-capital is his own. In the second place, for this reason, the implements fashioned by the labourers generally represent their own ingenuity, or the ingenuity of the average man, and the uses to which they put them represent nothing but individual dexterities and judgments. But in proportion as capital reaches its modern stage of development, the sustentation fund, or the hoarded means of life, though it is ultimately consumed by the labourers just as it was before, passes out of their own custody into that of a relatively few individuals, whose intelligence is above the average, and who apportion to

each labourer his own means of subsistence on condition that he performs his labour in certain special ways which the intelligence of these few prescribes to him.

The first distinctive result of this new development of sustentation-capital appears in the change effected by it in such capital as consists of implements. Implements, which previously had represented the intellect of the ordinary man, come gradually to represent the intellect of the exceptional man—of the great inventor, the man of constructive imagination, the master of applied knowledge; and, metamorphosed by labour, now acting under his direction, these implements are developed at last into the endless complexities of modern scientific machinery.

Further, this first result is supplemented or accompanied by another. Sustentation-capital as thus administered by the few is a means by which labour is directed when using the machinery for what is its sole ultimate purpose—namely, the production and multiplication of an endless variety of goods which directly minister to convenience, ease, and pleasure.

In other words, capital in its primitive stage consists solely of a few rudimentary tools. In its second stage, besides tools, it includes considerable hoards of food, which will support men for a longer period than that which is necessary for their renewal; and the labourers thus have time, by the use of their common sense, to convert mere tools into implements which,

though still of a rudimentary kind, are larger or more elaborate than what the word "tools" suggests.

### *Wage-capital as an Implement of Direction*

When capital reaches its modern stage, and the sustentation fund is administered not by the many but by the few, sustentation-capital develops into wage-capital. It becomes the means by which implement-capital is changed into capital embodied in the form of machinery, which machinery from generation to generation the intellect of the few renders more and more productive, and the multiplied products of which, with a view to demand and consumption, the organizing intellect of the few from year to year determines.

### *The Alternative to Wage-capital is Force, or some System of Slavery*

But though the essence of modern capital as the producer of increased wealth resides primarily in the fact that it is, in the form of wage-capital, a means by which the intellect of the few directs the operations of the many, this is not the only means by which the same result may, to some degree at all events, be accomplished. Wages are in their essence the produce of work performed by one man in obedience to the directions of another, and are only obtainable by

the worker on condition that he obeys. But a similar obedience may, as history shows, be secured by allotting to the worker a sum equivalent to his wages in any case, and then compelling his obedience by the application of external force. This is the method involved in all schemes of Socialism which even pretend to have a reasoned economic basis. According to such schemes all capital would be owned by the State, and the sustentation element would be distributed amongst the citizens considered not as workers but as men, the requisite work being ex-torted by law backed up in the last resort by a quasi-military force. But the various kinds of work which the State or the community would need would still be in themselves just what they are to-day; and, just as happens to-day under the regime of the private employer, the intellect of some central authority would have to devise and prescribe them. Other things being equal, the only essential difference between the two systems is the difference between getting a man to perform a prescribed task because he knows that his daily bread will be in proportion to his diligence in performing it, and giving him a maximum of daily bread first and whipping him into performing his pre-scribed task afterwards. The industrial object in view is in both cases the same; but the wage system secures it by an appeal to his head. The Socialist system would secure it by an appeal to his tail. This latter system is essentially the system of slavery.

Pretending to represent a respect for the dignity of men as men, it would really result in treating men like horses.

### *Wage-capital the Parent of Machine-capital*

The primary fact in either case is the control, by whatever means it may be exercised, over the hand-work of the many by the mental and moral energies of a specially able few. Here we have the primary cause of the modern increase of wealth—a cause which operates through the possession of wage-capital by persons possessing the highest directive talent; and this cause gives birth to a second—that is to say, capital in the form of modern machinery. Machine-capital represents productive genius crystallized in direct action. It is “the word made flesh”. Wage-capital represents productive genius in the preparatory act of so directing labour that it produces machine-capital, and constantly increases the extent to which current labour is assisted by it. In this way machine-capital, which is genius in its second incarnation, increases the total product, and thus makes possible and actual an increase of those “savings” by which, when used as wage-capital, machine-capital is itself made ampler and more effective.

Thus wage-capital, which consists primarily of food and other daily necessities, is machine-capital in its protoplasmic form. Indeed, when it first comes into

the hands of its possessor, it is in most cases merely potential protoplasm. So far as it represents mere saving on his part, it merely represents the fact that, instead of spending it on his own passing pleasures, he has decided on using it as the wages of productive work of some kind, which practically means the production of some sort of machinery; but before he can so use it, it is necessary for him to determine what the nature of the machinery shall be.<sup>1</sup> Until he has determined this, his wage-capital is like the log of wood which Horace describes as saying: "I once was the trunk of a fig tree—a piece of useless timber, till a craftsman, after debating whether he should turn me into a stool or a Priapus, settled on turning me

<sup>1</sup> In order to put the matter more in detail, let us take the case of the establishment of a new coal-mine. An actual case of this kind has been described by Sir Hugh Bell. Before the mine could be started, or a ton of coal from it put on the market, seven years' preliminary work were necessary in the way of experiment, investigation, and otherwise, which preliminary work swallowed up a capital of £600,000. The larger part of this sum took the form of wage-capital, or the livelihood of so many thousand workers, which was provided for them before their own work had produced anything. In the last analysis its source was goods which had been produced in the past, but for which as yet the producers had received no goods in exchange. What they had received was money which could be converted into goods of equivalent value, no matter of what kind, in any part of the world which produced the goods required, such goods in the present case consisting mainly of bread, meat, and other similar things, into which money-wages are converted. These goods, so far as the possessors of the wage-capital were concerned, were virtually deferred payments for other goods which had been produced by the possessors in the past, and which they now took in the form, not of personal luxuries for themselves, but of goods generally necessary for the maintenance and the health of all.

into a god". It is the directing mind of the few at the back of modern capital that gives it its productive efficiency, and we can see the process of its development from its protoplasmic and indeterminate stage upwards taking place under our very eyes.

*An Example of Machine-capital emerging  
out of Wage-capital*

Let us take a concrete illustration. Let us suppose that a "Tank" is an industrial, not a military mechanism. Let us suppose that it is a plough of unexampled efficiency, an agent of increased production, a new addition to the machine-capital of the country. Not so many months ago no such thing as a Tank existed; but this piece of machine-capital did not come out of nothing. It existed first in the form of an idea which was confined to the minds of one or a very few persons. Then this idea became associated with a practical command of food-stuffs and other commodities necessary for the support of a number of manual workers, who, in return for these, fashioned certain lumps of metal (which might have been fashioned into any number of familiar things, such as pokers or tongs or dust-pans) into steel plates, rivets, bars, rods, cylinders, and so forth, of patterns so unfamiliar that the very men who fashioned them had no conception of their final purpose. Then the manual workers, still in return for food-stuffs, con-

formed to the direction issued by the designing mind, assembled these parts and united them, and the Tank as a piece of machine-capital was at last an accomplished fact.

### *Wage-capital and the Organized Use of Machine-capital*

If, however, we regard such a mechanism as a type of machine-capital generally, wage-capital, if merely used as an implement of direction in constructing it, will have done but half its work. The machine-capital remains sterile until fresh labour uses it; and except in very simple cases, such as that of water-supply, the fresh labour that uses it requires as much direction and organization as the labour which was employed in its construction. An employer, for example, has a factory the machinery of which renders possible the production of so many thousand yards of cloth, chiffon or muslin, which differ from one another in respect of weight, texture, pattern, colour, and so forth; and his primary object will be to devise and produce those particular goods only which will from moment to moment satisfy the needs or captivate the capricious tastes of his customers. He must, therefore, be always directing the hand-work of his various employees in such a manner that, out of countless possible goods, certain special goods, and no others, shall from moment to moment be produced, and that

these shall be produced in certain specified quantities. The whole success of his business, both from the public point of view and from his own, depends upon such direction; and here again it is through wage-capital that the process of direction is accomplished. On this occasion or on that he pays his employees so many shillings a week, not for producing cloth of any kind, no matter what, but of some particular kind which he himself dictates.

In other words, whilst machine-capital is the proximate cause of increased production, machine-capital itself is created by, and the uses of it depend upon, brain-work which operates through the possession and administration of wage-capital.

## CHAPTER IV

### THE NOTTINGHAM LABOUR CONGRESS ON BRAIN-WORK AND CAPITAL

*The Truth of the Foregoing Analysis virtually admitted by the Labour Congress at Nottingham*

Now virtually, though not worked out in detail, the fundamental correctness of the preceding analysis of modern capital was admitted by a resolution passed by the Labour Congress held at Nottingham in January, 1918. And that such should be the case is an extremely interesting sign of how a fact which the more thoughtful socialists have for a long time recognized is becoming apparent to a very much wider circle; though it is also a sign, no less remarkable, of how far the Labour Party and its leaders are from grasping the full consequences of this fact, which they have now placed in the forefront of their programme as fundamental.

*Recognition of Brain-work as a Factor in Production, and of the Brain-worker as entitled to "the Full Fruits of his Industry"*

The first article of the resolution here in question declares that, when a party is said to represent

"Labour", the conception of the "labourer" must be widened, so that it shall include men who work with their brains and their moral faculties, and not those only who work with their hands and sinews—so that it shall, for example, include "an admiral like Lord Beresford on the one hand and a former official of Trade Unions like Mr. Seddon on the other".

*Two other Principles laid down which  
wholly repudiate the First*

So much being granted, the resolution proceeds to affirm formally three fundamental principles:—

Firstly, that the general objective of any Labour Party must be "to secure for each of the producers, whether by hand or brain, the full fruits of his industry";

Secondly "to secure the most equitable distribution possible, on the basis of the common ownership of the means of production";

Thirdly, to secure "the best obtainable system by which these means of production"—that is to say, capital when it has been once created—"may be placed under popular control".

Now, so far as it goes, the first of these three classes hits the nail on the head, and requires the alteration of only a single word, of which mention will be made presently.

The second clause is in part a mere repetition of the

first, for the first has already defined "the most equitable distribution possible" as that which secures the "full fruits of his industry for every worker whether by hand or brain". But it is not a mere repetition of the first. It is more. It is, curiously enough, a repudiation of one-half of its consequences. For if this second clause means anything at all, the sole meaning which distinguishes it from the first is this: that when "the full fruits of a man's industry, whether by hand or brain", are spoken of, everything is to be included in these fruits or products except such things as machine-capital or the means of production themselves. In other words, if a highly-accomplished cook makes perishable things, like specially nice jam-tarts, he is entitled to eat all of them, or get whatever he can by selling them at a special price; but that if a Watt produces a permanent utility like a steam-engine, however rare the brain-work necessary for such a feat may be, the engine shall be treated as though it had been produced by everybody, and the brain-industry of the original inventor be rewarded by no proportionate "fruits" at all.

The third clause is a recognition of the fact, which has been just now emphasized here, that machine-capital or engine-capital having been once constructed by brain-work controlling hand-work, a further "control" or organization must be imposed on the hand-work of the men using it; but it adds that this organization (which is pure brain-work or nothing) is to be

"popular", which can only mean that it is to emanate, not, as now, from the brains of specially gifted individuals, but from the brains of all men equally, whether they have any special talents for complex organization or no.

It will thus be seen that, though in its recognition of the brain-worker as a productive agent no less truly than the hand worker, and no less entitled than the latter to "the full fruits of his industry", the Nottingham Resolution indicates on the part of those who drew it up and assented to it a real development of thought in the direction of economic truth, the development is still incomplete, and is indeed in certain respects altogether inconsistent with itself. And these imperfections, if we consider the matter more closely, will be found to originate in the fact that, though its authors have come to recognize brain-work as one of the agencies by which production generally is increased, they have arrived at no clear recognition of the manner in which brain-work acts.

Here we are brought to another, and indeed to the fundamental question. What is the manner—what is the sole manner—in which brain-work as distinct from hand-work does act and can act, if we consider it as an agent by which wealth is increased generally?

## CHAPTER V

### BRAIN-WORK, WAGE-CAPITAL, AND MACHINE-CAPITAL

#### *How Productive Brain-work operates*

Except in a few cases, such as that of the painter, in whose person brain-work and hand-work are essentially and inseparably connected, the brain-worker can add to the general wealth of a country in one way only, and that is, by directing, not the movements of his own hands, as the painter does, but the movements of the hands of masses of other people. If the greatest industrial brain-worker in the world directed the movements of his own hands only, he might personally produce something a little above the average, but the efficiency of labour in general would be just what it was before. Let us, for an illustration of this fact, go back to our supposed agricultural "Tank".

#### *The Industrial Brain-worker operates by directing the Hands of Others*

Such a mechanism let us say, when it is multiplied and put on the market, doubles the product of every

acre to the tillage of which it is applied. It adds millions of pounds yearly to the value of the country's crops. But if the brain-work of the inventor affected his own hands only, the utmost he could do would be to perfect a small model—a model of the size of a perambulator—by which, if he used it himself, he might double the produce of a field at the back of his own house, and there the matter would end. If his brain-work, as embodied in the Tank, is to be made useful generally, it must be made on a large scale, and it must be multiplied.

*By the Use of Wage-capital the Brain-worker produces Machine-capital*

Let us suppose that the brain-worker who invents it and who causes its multiplication are the same. The raw materials of the agricultural Tank being given, such a man, as has just now been said, in making a practical start, must first of all be the possessor of a certain wage-capital. This, we may say, is £5000, which he dispenses to fifty mechanics at the rate, let us say, of 40s. a week for a year, on condition that they fashion the materials in strict accordance with his own drawings and directions; and at the end of the year there are five full-sized Tanks, ready to increase, when used, the agricultural output of the country. But what, by that time, is the position of the brain-worker himself? His original capital

of £5000 will have disappeared. The fifty mechanics will have had their own reward in eating it up and living on it during the course of the past twelve months, and, in consequence of the brain-worker's genius, it will have reappeared as capital in the form of five machines.

*The "Fruits of the Industry of the Brain-worker" come to him only through his Claims on the Capital which he has himself created.*

But if matters ended here the brain-worker will have got no reward for his own work at all, either in elaborating his designs or directing the mechanics in the execution of them. He will merely have lost all the capital which he once possessed; for the Tanks, as they now stand, would not yield him bread and butter for a day. His reward will begin only when he makes over the use of this machine-capital to farmers, who will pay him for the use of it out of the value of the extra crops which the use of it will enable them to produce.<sup>1</sup> They will not, indeed, give

<sup>1</sup> It has been contended by some economists—Henry George was one of them—that wages do not come out of capital at all, but represent the direct result of the efforts of the wage-earners themselves before their wages are paid—an argument which, if it were in any important sense true, would apply to the rewards of the brain-work of the employing capitalists also—to what Mill described analogically as "the wages of their superintendence"; and there are certain cases in which it might be, or perhaps even  
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him the whole of this extra quantity, for, if they did so, the use of the machines would be of no benefit to themselves; but they will, directly or indirectly, give him a certain percentage of it.

But if, according to the terms of the Resolution passed by the Labour Congress, all "the means of production", or all machine-capital, should be treated as "common property", our brain-worker, instead of being entitled to "the full fruits of his industry", will get absolutely nothing, or at best no more than some forty-five-millionth part of them, and everything which he had saved from the fruits of his previous industry would be gone. That is to say, according to the principles laid down by the Labour Party at Not-

is, true. A man, for example, with a capital represented by an office, might collect a number of boys and employ them at a weekly wage in carrying messages at a certain charge per mile, the total receipts being handed over to himself, and a part of them being returned to the boys as wages at the close of each week, or it might be at the close of every evening. Wages, no doubt, would in a case like this come out of the product of work already performed; for the product of each piece of work—the delivery, that is to say, of a message—would be paid by the recipient to the messenger; and the wages which the latter received subsequently would come out of so many shillings which went first into his own pocket. But this is true only of peculiar and minor undertakings. It is absolutely untrue of the typical enterprises of to-day. If a railway company constructs a work like the Severn Tunnel, or a manufacturer constructs a factory, neither of these undertakings will, in the way of products or services, yield anything until it is complete. It will yield nothing out of which wages can come. For the completion of either, the work of years may be necessary—for the completion of the tunnel, the work of five or six years; but the wages of the labourers must be paid during the whole interim; and they can come only out of capital already saved by the employers, and pre-existing in the form of potential wages.

tingham, all brain-work would be rewarded in proportion to its full productive value except brain-work of the higher kind, by which alone the efficiency of production is susceptible of any general increase. The higher brain-workers would be pariahs outside the region of economic justice altogether.

The question, then, which arises is this. How is it that people, who have come to see clearly up to a certain point, show themselves so incapable of any clear vision beyond it that their second and third principles absolutely contradict their first?

## CHAPTER VI

### THE CO-OPERATION OF VARIOUS CLASSES IN ACCORDANCE WITH THEIR RESPECTIVE POWERS.

#### *Confusion arising from an Inaccurate Use of Language*

Let us turn back for a moment to an observation which has been made already, and which relates not to the substance of their first principle but to its wording. It has been said that, as the Labour Party states it, their first principle requires one verbal amendment. The amendment referred to is as follows. In order to make the meaning of their statement clear, for the word "*labour*" should be substituted the word "*effort*", which includes, as commonly used, brain-work as well as hand-work, the word "*labour*" being popularly understood as designating the latter to the implied exclusion of the former.

#### *Substitution of the Word "Effort" for the Words "Brain-work and Hand-work"*

If this verbal amendment be made, what is now called the Labour Party will reappear as the Effort

Party; and the only conceivable difference, so far as fundamentals are concerned, between it and any other party would be that an Effort Party or an Effort Government would stand for the principle that power should be vested solely in persons whose lives are, or have been, devoted to useful effort of one kind or another. But even this difference would be more or less illusory; for the mere exercise of governmental power is an arduous effort in itself.

*The Real Logic of the Labour Party Attacks—  
no Income from Capital, but Recurring  
Income from Inherited Capital*

To talk, therefore, of an Effort Party or an Effort Government would seem at first sight to be a mere piece of tautology; and it is obvious that, however fully those who now call themselves the Labour Party have come to recognize brain-work as a genuine productive agent, they have at the back of their minds some meaning less barren than this. Such would be, indeed, the case even if they recognized capital, and those results of its use which are commonly called interest, as the legitimate property of those whose efforts had in the course of their own lives produced it. But quite apart from the income thus derived, an income accrues to many persons from capital which has been inherited, and not created by themselves; which they do not even administer by their own brain-

work in using it, but simply invest, or lend to others whose brain-work makes it fructify; and the logical meaning of the Resolution passed by the Nottingham Congress, self-contradictory as it stands, boils itself down to this—that the means of production, or the capital, which should be treated as “common property”, comprises not all capital but only such portions of it as their present possessors have not created but inherited.

### *An American Socialist on Inherited Income*

This has been plainly stated by one of the leading Socialists of America. According to any sane conception of brain-work, any man, he says, is entitled to the uttermost farthing he can get for it. Further, with one limitation only, he is entitled to spend it as he likes; and if he has not spent the whole of it at his death, he may, with this same limitation, be even entitled to transmit the residue to his son. The limitation imposed equally on father and son is that, whilst father and son may consume their wealth on their own transitory enjoyments, they may not convert it into any permanent utility which would assist in the production of more wealth, and thus yield them a permanently recurring income. For example, he says, “a great singer like Melba” might legitimately make 150,000 dollars in the course of a single opera-season, and spend it, if she liked, on dresses and in

entertaining her friends; but she would not be allowed to spend it in constructing "a block of houses in New York", for the use of which she or her heirs would receive an "annually recurring rent".

*The Small Popular Gain from any Mere  
Redistribution of Inherited Incomes*

Now without pausing to consider (for space does not admit of this) the general effects of a law which would encourage men to eat up "the full fruits of their industry", and practically render the construction of all permanent utilities penal, it will be enough here to say a word or two as to a matter yet more important. Of the various causes operating in the ranks of the Labour Party which lead them to demand the conversion of all inherited capital into "common property", the most active cause is, not any general theory, but a belief as to simple fact. This is a belief, carefully fostered by agitators, that the income from inherited capital in a country such as our own forms so huge a proportion of the national income in its entirety, that a distribution of it "on the basis of common property" would suffice to raise all, even the least efficient, to conditions of leisure and affluence never before experienced or even approached by the masses of any nation in the history of the human race.

In the earlier portion of the present volume this question has been dealt with already. In my recently

published work, *The Limits of Pure Democracy*, it is dealt with in greater detail. It will be enough here to repeat in more general terms that, whilst the net spendable income from inherited capital in a country like our own is considerable, it is something absurdly small if compared with the magnitude which the imagination of the Labour Party attributes to it. If, for example, it were treated as "common property", and added to the direct "fruits of the life-industry of living men", it would not, for the wage-earning classes, mean one-third of the gain which they have actually achieved between the death of Lord Beaconsfield and to-day. And these observations bring us back to Lord Leverhulme, who predicts, as we have seen, a gain incomparably greater than this in the course of a few years, which has nothing to do with the conversion of capital from individual into common property, but relates solely to the possibilities of increased production.

*Summary of the Means by which the Masses may  
in the Future secure Substantial Enrichment*

It has been pointed out in the preceding pages that, for various reasons, there definitely specified, Lord Leverhulme's promise of a vastly increased production with a concurrent diminution of labour-hours, rests, if it relates merely to the more continuous use of machinery, on too narrow a basis. It has been, how-

ever, pointed out also that there are two other changes which are at least equally practicable, and on which indeed, in certain of his utterances, Lord Leverhulme has himself insisted; and if these two others are accomplished in connection with the first, the three together may go far in the direction of rendering Lord Leverhulme's optimistic promise a reality.

### *The Constant Improvement of Machine-capital*

One of these is in its general character so simple and obvious that it is enough merely to mention it. It consists, not in the more continuous employment of the machine-capital now existing, but of concurrent improvements of it by brain-work of the highest quality. The other change—and from certain points of view it is even more important—requires a more detailed explanation.

### *A Higher Development by the Labourers of their own Faculties*

If we take any average labourer, we may say, speaking broadly, that his labour if he works for wages (or in other words if he works under the technical direction of an employer) differs from his labour if he works independently, and directly consumes or sells his own isolated product, in the fact that his technical actions are in the latter case mapped out

for him and co-ordinated with the actions of others by a mind external to his own, the general character of his work being not necessarily different in its character from what it was before. A carter who transported in a cart the most elaborate of scientific mechanisms, from the places where the parts were made to the place where they were assembled and put together, would be doing work in no way different from that which a mediæval farmer did when he carted so much barley.

### *Watt and his Workmen*

When Watt and his capitalist partner began together the commercial production of steam-engines, it was very difficult to get out of the mechanics employed by them work more accurate than that which had been necessary for constructing the axles and wheels of coaches. Even so, however, the steam-engines fashioned by the mechanics working under Watt's direction were a vast addition to the productive powers of the country. But, as Watt soon discovered, the work of even his best mechanics was so rough in kind that a large part of the steam-power was, by leakage, wasted. He had therefore to train them, or induce them to train *themselves*, to an accuracy of work of which previously they had no idea, the reason being that, prior to Watt's inventions, no accuracy of this novel degree was necessary. The mechanics, however,

did acquire it when once Watt had presented them with opportunities for its productive use. In *The Limits of Pure Democracy* (Chapter III, Book III) I have dealt with this question at length. It is enough here to say that what applies to the making of steam-engines under the direction of a genius like Watt, applies to modern labour generally as distinguished from the labour of a hundred years ago. New kinds of precision, alacrity, and punctuality are needed, and have been developed now, which had not been developed, because they were not needed, then. The opportunities for this development and new differentiation of faculties has come from above. The *development itself* has come from below. It represents on the part of the labourers, not a mere passive submission to the directions of the scientific employer; it represents an active response to them, which originates in the labourers themselves.

Thus, if we suppose two things to be given, namely, the highest scientific direction on the one hand and a mass of labourers on the other—the latter, even if their labour was merely of the crudest kind, would produce considerably more than they would do if they worked independently; but if, opportunities being devised for them, they by their own exertions developed their own latent faculties further, the total product would be indefinitely greater still. In other words, under the modern system of industry there is always a margin between the total product as it is, or as it

would be if the labourers developed their own faculties to the utmost, and the total as it is, or would be if the labourers did or do no more than would just make it worth while for the capitalist to provide them with capital and employ them.

*Reserves of Alacrity in the Labourers which  
are still waiting to be developed*

Now to-day, in the opinion of all, there is a great volume of alacrity which is latent in the labourers themselves, and which would, if fully exerted, increase the total product of this country immensely, but which is at present developed and exercised by them to a relatively small degree. Indeed, in this country, at all events, it has been the avowed policy of Trade Unions to repress this development, and thus induce what is called "a limitation of output". It might seem difficult to conceive a policy more insane than this; but it has nevertheless an intelligible logic at the back of it.

*What is mainly needed to secure the Exercise  
of this Latent Labour-power*

What the wage-earners tell themselves is that, as matters are now arranged, they get a certain wage for a certain minimum of effort, but that, if they developed and exerted their own faculties further, they would

get no proportionate reward in the way of extra wages for themselves. A properly scientific wage scheme would render this complaint impossible. It would aim at securing for all extra effort—namely that which depends on the voluntary self-education of the labourer—a super-reward proportionate to the extra amount produced, and would thus call into operation large industrial forces which are at present latent because there is no inducement, or no general inducement, to exercise them.

The methods by which most conveniently and accurately this super-reward may be allotted—whether it would be by way of shares held by the wage-earners in the capital of this or that business, or by the development of piece-work or otherwise—would differ according to the nature of the particular business in question; but in all cases the underlying principle would be the same—namely, that all effort beyond a certain minimum should be certain of receiving a reward equivalent to its productive value.

### *The Three Main Means of Increased Production in the Interests of All*

The main reforms, then, to which we may reasonably look forward as the means of approximately realizing the promises which Lord Leverhulme outlines—namely, a large increase of wages, together with a diminution of toil—are three:—



1. The more continuous use of existing machine-capital;
2. The improvement of machine-capital by the genius of the inventor, the discoverer and the organizer, in which category we may include new processes and a more economical use of motive-power and means of transport;
3. A practical development on the part of the wage-earners of alertness and energy now largely latent for want of sufficient inducement in the way of accurately graded reward to exercise them.

*The Highest Wages in the World are those now paid by Certain of the Greatest Capitalists*

Those reforms have nothing whatever to do with loose schemes for making capital common property, or placing the use of capital under the joint control of everybody. They have nothing to do with the idea of making the wage-earners richer by making the employer poorer. The highest wages ever paid in the world's history have been paid by American employers, such as the Ford Company, whose own profits have been enormous. The reforms here indicated may lead in the near future to the beginnings both of great increase and a general diffusion of wealth. An attempt to realize these processes by making capital common property, and using it under the control of everybody, would arrest or paralyse both.

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